

Message Text

LIMITED OFFICIAL USE

PAGE 01 TEL AV 02947 271436Z
ACTION NEA-10

INFO OCT-01 ISO-00 SS-15 SP-02 NSC-05 L-03 CIAE-00
INR-07 NSAE-00 EB-08 OMB-01 TRSE-00 CPR-01 PRS-01
/054 W
-----272038Z 012654 /44
R 271325Z APR 77
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC 5894

LIMITED OFFICIAL USE TEL AVIV 2947

E.O. 11652: N/A
TAGS: EFIN, IS
SUBJECT: ISRAELI FOREIGN EXCHANGE CONTROLS

REF: (A) TEL AVIV 2878 (B) TEL AVIV A-53

1. IN LIGHT OF THE DIFFICULTIES CERTAIN PROMINENT ISRAELIS HAVE RECENTLY HAD OVER FOREIGN EXCHANGE DEALINGS, THE FOLLOWING REVIEW OF FOREIGN EXCHANGE CONTROLS MAY BE OF INTEREST. ISRAEL HAS HAD CONTROLS ON ITS RESIDENTS' FOREIGN CURRENCY DEALINGS SINCE THE INCEPTION OF THE STATE. INDEED, THE ORIGINAL REGULATIONS WERE INHERITED FROM THE MANDATE PERIOD, ALTHOUGH THEY HAVE BEEN GREATLY MODIFIED TO FIT CHANGING INSTITUTIONAL REQUIREMENTS AND TO BLOCK STRATEGEMS USED BY MANY ISRAELIS TO OBTAIN FOREIGN ASSETS.

2. THE FOREIGN EXCHANGE ASSETS OF THE ISRAELI ECONOMY ARE CONSIDERABLY LARGER THAN NET OR GROSS FOREIGN EXCHANGE RESERVES (REF B), AND MANY ISRAELI ECONOMISTS BELIEVE THAT THE EXCHANGE CONTROLS ARE UNNECESSARILY RIGID. FOR EXAMPLE, THE \$450 LIMIT ON FOREIGN CURRENCY ISRAELIS MAY PURCHASE FOR TRAVEL ABROAD IS UNREALISTIC AND IS REGULARLY VIOLATED BY THOUSANDS OF ISRAELI TOURISTS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 TEL AV 02947 271436Z

3. THERE ARE SEVERAL LEGAL WAYS IN WHICH ISRAELIS MAY OBTAIN, HOLD, AND SPEND FOREIGN CURRENCY EVEN WHILE RESIDENT IN ISRAEL, WITHOUT PERMITS. SO-CALLED NATAD DOLLARS MAY BE FREELY BOUGHT BY ANY ISRAELI IN THE TEL AVIV STOCK MARKET TO PURCHASE FOREIGN SECURITIES. NEW IMMIGRANTS MAY MAINTAIN FREELY TRANSFERABLE FOREIGN

CURRENCY ACCOUNTS IN ISRAEL (PATACH) FOR UP TO 10 YEARS AFTER THEIR ARRIVAL. ISRAELIS TEMPORARILY LIVING ABROAD MAY CONDUCT TRANSACTIONS IN FOREIGN CURRENCY WITHOUT BEING ACCOUNTABLE TO THE ISRAELI FOREIGN EXCHANGE CONTROLLER, WHETHER IN PAMAZ ACCOUNTS IN ISRAELI BANKS IN ISRAEL OR ABROAD OR IN REGULAR ACCOUNTS IN FOREIGN BANKS. THUS, FOR EXAMPLE, ISRAELI DIPLOMATS IN THE UNITED STATES MAY FREELY OPEN AND MAINTAIN ACCOUNTS IN U.S. BANKS OR IN THE NEW YORK BRANCH OF BANK LEUMI WITHOUT PRIOR APPROVAL OF THE FOREIGN EXCHANGE CONTROLLER. HOWEVER, WHEN THEY RETURN TO ISRAEL, THE ACCOUNTS MUST BE CLOSED WITHIN SIX MONTHS AND THE DOLLARS CONVERTED INTO POUNDS AT THE OFFICIAL RATE OF EXCHANGE. THE RABINS VIOLATED THIS PROVISION OF THE REGULATIONS.

4. SOME ISRAELI RESIDENTS ARE ISSUED SPECIAL PERMITS BY THE CONTROLLER TO DEAL IN FOREIGN CURRENCY WHEN THEY CAN DEMONSTRATE A VALID NEED TO DO SO, ESPECIALLY IF ENGAGING IN BUSINESS ACTIVITY LIKELY TO RESULT IN FOREIGN EXCHANGE EARNINGS WHICH WILL BE SUBSEQUENTLY TRANSFERRED TO ISRAEL. AN ISRAELI EXPORT FIRM MAY HAVE AN OFFICE ABROAD AND CONDUCT BUSINESS IN FOREIGN CURRENCY.

5. ABBA EBAN, FOR HIS PART, CLAIMS THAT HE WAS ISSUED A PERMIT TO DEAL IN FOREIGN CURRENCY TEN YEARS AGO. HOWEVER, IN 1975, FOLLOWING THE MICHAEL TZUR-ISRAEL CORPORATION SCANDAL, OUTSTANDING PERMITS WERE CANCELLED AND THE CONTROLLER ANNOUNCED THAT ALL RESIDENTS WHO WISHED TO MAINTAIN FOREIGN CURRENCY ACCOUNTS ABROAD LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 TEL AV 02947 271436Z

SHOULD APPLY FOR NEW PERMITS. EBAN DID NOT DO SO, AND IS UNABLE TO PRODUCE THE ORIGINAL PERMIT.

6. MINISTRY OF FINANCE SPOKESMEN ADMIT THAT RECORDS HAVE BEEN POORLY MAINTAINED AND NO FOLLOW-UP MADE TO CONTACT THOSE WHO, WHETHER INTENTIONALLY OR INADVERTENTLY, FAIL TO OBTAIN NEW PERMITS. ONLY 375 PERMITS REPORTEDLY ARE CURRENTLY VALID. IT IS NOW GENERALLY RECOGNIZED THAT THE FOREIGN CURRENCY CONTROL SYSTEM IS BADLY IN NEED OF OVERHAUL. OBSERVERS AGREE THAT, WHILE CONTROLS ARE PROBABLY NECESSARY UNDER PRESENT CIRCUMSTANCES, THEY SHOULD BE REDUCED IN SCOPE AND MADE MORE REALISTIC.
DUNNIGAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN EXCHANGE CONTROLS
Control Number: n/a
Copy: SINGLE
Sent Date: 27-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TELAV02947
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770147-0480
Format: TEL
From: TEL AVIV
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770412/aaaaajxr.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 58393e9c-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 TEL AVIV 2878, 77 TEL AVIV A-53
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2673696
Secure: OPEN
Status: NATIVE
Subject: ISRAELI FOREIGN EXCHANGE CONTROLS
TAGS: EFIN, IS
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/58393e9c-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009